

Message Text

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SUBJ: FORD-KREISKY MEETING IN SALZBURG: CURRENT ECONOMIC
SITUATION IN AUSTRIA

FOR EUR:CE - BRUCE FLATIN

FOLLOWING IS UPDATE ON AUSTRIAN ECONOMIC SITUATION FOR
INCLUSION IN BRIEFING MATERIAL FOR VISIT:

1. THE AUSTRIAN ECONOMY, AFTER ENJOYING A SEVEN-YEAR
BOOM, HAS BEGUN TO SLOW DOWN. ALTHOUGH GROWTH
RATE LAST YEAR WAS 4.5 PERCENT, ECONOMY BEGAN TO DECELERATE
AROUND MID-1974. FOREIGN DEMAND DECLINED DUE TO RECES-
SIONARY TRENDS IN OTHER MAJOR WESTERN ECONOMIES. THIS
DECLINE WAS ACCENTUATED IN SOME MARKETS BY UNFAVORABLE
EXCHANGE RATES VIS-A-VIS THE AUSTRIAN SCHILLING. IN
ADDITION, DEVELOPMENTS ABROAD HAVE GENERATED ATMOSPHERE
OF UNCERTAINTY WITHIN AUSTRIA WHICH HAVE MADE FIRMS
AND CONSUMERS MORE CAUTIOUS IN THEIR BUYING AND
INVESTMENT PLANS. WHILE SOME FIRMS WHICH DEPEND
HEAVILY ON EXPORTS HAVE BEEN HARD HIT, OTHER SECTORS,
SUCH AS MACHINERY MANUFACTURING AND TOURISM ARE DOING
WELL.

2. THE ECONOMY WILL PROBABLY REMAIN SLACK THROUGH
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END OF CURRENT YEAR. GROWTH RATE FOR 1975 IS NOW

PROJECTED AT 2.5PERCENT, CONSIDERABLY BELOW 5 TO 6 PERCENT GROWTH RATE AUSTRIANS HAVE BECOME ACCUSTOMED TO IN PAST HALF-DOZEN YEARS. TO STIMULATE ECONOMY, GOVERNMENT HAS SHIFTED GEARS, RELAXING ITS ANTI-INFLATIONARY MEASURES AND RESORTING TO STEPS TO ENCOURAGE INVESTMENT AND EXPORTS. PRICE PRESSURES UNDER IMPACT OF WEAKENING DEMAND APPEAR TO BE ABATING. HOPES ARE THAT INFLATION CAN BE KEPT TO 9 PERCENT THIS YEAR. UNEMPLOYMENT REMAINS NEGLIGIBLE, AND GOVERNMENT IS COUNTING ON A REVIVAL OF CONSUMPTION IN LATTER HALF OF YEAR.

3. TOURIST INDUSTRY, WHOSE EARNINGS NORMALLY COMPENSATE FOR MOST OF AUSTRIA'S TRADITIONAL TRADE DEFICIT, IS EXPECTED TO DO BETTER THAN LAST YEAR, AS BOOKINGS FOR COMING SUMMER SEASON ARE ABOVE THOSE FOR LAST SUMMER. BALANCE OF TRADE SHOULD IMPROVE AS IMPORTS ARE EXPECTED TO GROW MORE SLOWLY THAN EXPORTS, DUE TO LOWER DOMESTIC DEMAND AND DECLINING PRICES FOR IMPORTED RAW MATERIALS. THE INSTITUTE NOW ESTIMATES GROWTH OF AUSTRIAN IMPORTS AT 8.5 PERCENT AND OF EXPORTS AT 11.5 PERCENT FOR THE YEAR AS A WHOLE, IN NOMINAL TERMS. IN REAL TERMS, CORRESPONDING RATES WILL BE 3 PERCENT AND 3.5 PERCENT. THIS RESULT, TOGETHER WITH INCREASED CAPITAL IMPORTS, SHOULD IMPROVE AUSTRIA'S BALANCE OF PAYMENTS SITUATION AND INCREASE ITS RESERVES. RUMORS PERSIST THAT THE SCHILLING, CONSIDERED OVERVALUED IN MANY BUSINESS QUARTERS, MAY BE DEVALUED - AFTER FOUR SUCCESSIVE REVALUATIONS IN PAST FOUR YEARS. ALTHOUGH FIRMLY DENIED, A MODEST DEVALUATION OF SCHILLING COULD NOT BE RULED OUT AS BOOST TO EXPORTS.

4. WHILE AUSTRIAN ECONOMY IS UNDOUBTEDLY FACING SOME DIFFICULTIES AND UNCERTAINTIES AGGRAVATED BY IMPONDERABLES IN INTERNATIONAL ENERGY SITUATION, IT IS UNDENIABLY IN BETTER SHAPE THAN MANY WESTERN ECONOMIES AT PRESENT. UNEMPLOYMENT AT 2 PERCENT REMAINS MINIMAL; INFLATION IS WORRISOME BUT FAR LESS SO THAN IN MANY COUNTRIES; UNION LEADERSHIP IS CONFIDENTIAL

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RESPONSIBLE AND AUSTRIA REMAINS FREE OF STRIKES; GROWTH RATE WILL BE LOWER THIS YEAR THAN USUAL, BUT MANY ECONOMISTS BELIEVE A FEW YEARS OF COOLING OFF IS JUST WHAT ECONOMY NEEDS TO ELIMINATE INEFFICIENCIES, IMPROVE COMPETITIVENESS AS WELL AS QUALITY OF GOODS AND SERVICES, AND MAKE POSSIBLE EARLY RESUMPTION OF A SOUNDLY BASED GROWTH.

5. US-AUSTRIAN TRADE HAS REFLECTED STATE OF BOTH ECONOMIES. IN 1974, TRADE IN BOTH DIRECTIONS CONTINUED TO EXPAND IMPRESSIVELY. AUSTRIAN EXPORTS TO US LAST YEAR AMOUNTED TO \$249 MILLION, AN INCREASE OF 10 PERCENT OVER PREVIOUS YEAR. US EXPORTS TO AUSTRIA TOTALLED \$259 MILLION, AN INCREASE OF 14.4 PERCENT. THIS YEAR, TRADE IN BOTH DIRECTIONS HAS DECLINED. IN FIRST QUARTER, AUSTRIAN EXPORTS TO US DROPPED 30 PERCENT AS RECESSION IN US SHARPLY REDUCED DEMAND.

6. US EXPORTS HAVE FARED BETTER BUT HAVE REFLECTED SLACKENING PACE OF AUSTRIAN ECONOMY. IN FIRST QUARTER, US SALES TO AUSTRIA DECLINED 12 PERCENT OVER COMPARABLE QUARTER OF PREVIOUS YEAR. DECLINE WAS PRONOUNCED IN NON-FEROUS ORES AND TOBAJO. GRAIN EXPORTS TO AUSTRIA WERE ALSO DOWN, AS AN EXCELLENT DOMESTIC HARVEST CUT DOWN NEED FOR IMPORTED GRAINS. RESULT HAS BEEN THAT IN FIRST QUARTER US MARKET SHARE IN AUSTRIA FELL BELOW 3 PERCENT.

7. WHILE SLACKENING PACE OF AUSTRIAN ECONOMY IS ONE FACTOR IN DISAPPOINTING PERFORMANCE OF US SUPPLIERS, FACT REMAINS THAT THE DOLLAR--SCHILLING EXCHANGE RATE PLACES US GOODS AT AN ENORMOUS COMPETITIVE ADVANTAGE. SINCE NOVEMBER OF LAST YEAR, DOLLAR HAS DEPRECIATED VIS-A-VIS THE SCHILLING 12 PERCENT; SINCE JANUARY OF 1973, THE DOLLAR HAS DEVALUED AGAINST THE SCHILLING ALMOST 30 PERCENT. HOWEVER, A LONG TERM FACTOR WORKING AGAINST US SUPPLIERS IS REDUCTION OF INDUSTRIAL DUTIES BETWEEN AUSTRIA AND 9-MEMBER EUROPEAN COMMUNITY. THESE DUTIES AHVE ALREADY BEEN REDUCED 60 PERCENT; BY 1977, THEY WILL BE REDUCED TO ZERO IN MOST CASES.

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